The City of Edinburgh Council

10.00am, Thursday 20 February 2025

Housing Revenue Account (HRA) Budget Strategy 2025/26 to 2034/35 – referral from the Finance and Resources Committee

Executive/routine	
Wards	**All**

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on Housing Revenue Account (HRA) Budget Strategy 2025/26 to 2034/35 to the City of Edinburgh Council on 20 February 2025 for a decision on the draft 10-year capital programme, and the associated rent levels for 2025/26 (set out in Appendices 2, 3 and 5 of the report by the Interim Executive Director of Place.

Approval is also sought on the associated Prudential Borrowing Costs following the approval of the continuation of the previously approved programme to purchase properties to be used as temporary accommodation for homeless households, up to a maximum of an additional 150 properties

Paul Laurence
Chief Executive

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Referral Report

Housing Revenue Account (HRA) Budget Strategy 2025/26 to 2034/35 – referral from the Finance and Resources Committee

2. Terms of Referral

2.1 On 4 February 2025, the Finance and Resources Committee considered a report on Housing Revenue Account (HRA) Budget Strategy 2025/26 to 2034/35.

2.2 On 22 February 2024, the Council agreed to increase rent by 7% a year for five years between 2024/25 and 2028/29; 2025/26 was the second of the five-year period and rent is set to increase by 7%. There was also an assumption that rent would continue to increase by 7% a year for a further five years (2029/30 to 2033/34) to deliver the approved investment plan.

2.3 The annual review of HRA business plan assumptions (especially on the level of affordable housing grant) means that the approved investment plan was no longer viable. As a result, the delivery of new supply of social rented homes had reduced from 3,560 in last year's plan to c.2,210, including the net increase through the Acquisitions and Disposals (A&D) programme.

2.4 It was noted if the General Fund (GF) was to fund the gap of c.1,350 homes, it would require total capital funding of c.£298m. In addition, investment on existing homes for retrofit was re-profiled with a reduction of £64m across the ten years of the plan. To re-instate this would require an additional £64m to be provided through the General Fund capital programme.

2.5 The Finance and Resources Committee agreed:

2.5.1 To note that 2025/26 was the second year of the five-year rent strategy agreed by the Council as part of last year's budget and that, in line with the agreed strategy, it was assumed that rent will increase by 7% in 2025/26.

2.5.2 To note the budget consultation which ran until 29 November 2024, with the results set out in paragraph 4.10 to 4.22.

2.5.3 To note the key changes made to the Housing Revenue Account (HRA) Business Plan assumptions since the budget was approved in February 2024 and their impacts on the Business Plan, including a reduction of c.1,350 social rent council homes over the next 10 years

2.5.4 To note the process to include HRA budget motions involving support from the Council's General Fund (GF) account.

2.5.5 To note that investment in unfunded pressures and priorities set out in the report would require additional funding and / or reprioritisation of existing budgets and must be supported by robust business cases.

2.5.6 To note that delivery of unfunded capital expenditure priorities through the GF was dependent on the achievement of a balanced medium-term revenue budget. While officer proposals currently did not provide support to the HRA, a further 1% increase in Council Tax could support capital funding of £55m which could deliver up to 249 new homes. Any GF support to the HRA would require Scottish Ministers' approval.

2.5.7 To approve the continuation of the previously approved programme to purchase properties to be used as temporary accommodation for homeless households, up to a maximum of an additional 150 properties, and refer this to the Council meeting on 20 February 2025 for approval of the associated Prudential Borrowing.

2.5.8 To note the 'Housing Revenue Account Budget Strategy 2025/26 to 2034/35 - Risks and Reserves' report that was also presented to this Committee.

2.5.9 To agree to refer the 2025/26 revenue budget, draft 10-year capital programme, and the associated rent levels for 2025/26 (set out in Appendices 2, 3 and 5) to the Council meeting on 20 February 2025 for decision.

3. Background Reading/ External References

3.1 Finance and Resources Committee – 4 February 2025 - Webcast

3.2 Minute of the Finance and Resources Committee – 4 February 2025

4. Appendices

Appendix 1 – Report by the Interim Executive Director of Place.

Finance and Resources Committee

10.00am, Tuesday, 4 February 2025

Housing Revenue Account (HRA) Budget Strategy 2025/26 to 2034/35

Executive/routine	**Routine**
Wards	**All**

1. Recommendations

1.1 Finance and Resources Committee is asked to:

1.1.1 Note that 2025/26 is the second year of the five-year rent strategy agreed by the Council as part of last year's budget and that, in line with the agreed strategy, it is assumed that rent will increase by 7% in 2025/26;

1.1.2 Note the budget consultation which ran until 29 November 2024, with the results set out in paragraph 4.10 to 4.22;

1.1.3 Note the key changes made to the Housing Revenue Account (HRA) Business Plan assumptions since the budget was approved in February 2024 and their impacts on the Business Plan, including a reduction of c.1,350 social rent council homes over the next 10 years;

1.1.4 Note the process to include HRA budget motions involving support from the Council's General Fund (GF) account;

1.1.5 Note that investment in unfunded pressures and priorities set out in this report will require additional funding and / or reprioritisation of existing budgets and must be supported by robust business cases;

Gareth Barwell

Interim Executive Director of Place

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1.1.6 Note that delivery of unfunded capital expenditure priorities through the GF is dependent on the achievement of a balanced medium-term revenue budget. While officer proposals currently do not provide support to the HRA, a further 1% increase in Council Tax could support capital funding of £55m which could deliver up to 249 new homes. Any GF support to the HRA would require Scottish Ministers' approval;

1.1.7 Approve the continuation of the previously approved programme to purchase properties to be used as temporary accommodation for homeless households, up to a maximum of an additional 150 properties, and refer this to the Council meeting on 20 February 2025 for approval of the associated Prudential Borrowing;

1.1.8 Note the 'Housing Revenue Account Budget Strategy 2025/26 to 2034/35 - Risks and Reserves' report that is also presented to this Committee; and

1.1.9 Agrees to refer the 2025/26 revenue budget, draft 10-year capital programme, and the associated rent levels for 2025/26 (set out in Appendices 2, 3 and 5) to the Council meeting on 20 February 2025 for decision.

Report

Housing Revenue Account (HRA) Budget Strategy 2025/26 to 2034/35

2. Executive Summary

2.1 On 22 February 2024, the Council agreed to increase rent by 7% a year for five years between 2024/25 and 2028/29; 2025/26 is the second of the five-year period and rent is set to increase by 7%. There was also an assumption that rent would continue to increase by 7% a year for a further five years (2029/30 to 2033/34) to deliver the approved investment plan. Consultation with tenants therefore focussed on how their rent will be spent and the investment priorities for the Housing Revenue Account (HRA).

2.2 The annual review of HRA business plan assumptions (especially on the level of affordable housing grant) means that the approved investment plan is no longer viable. As a result, the delivery of new supply of social rented homes has reduced from 3,560 in last year's plan to c.2,210, including the net increase through the Acquisitions and Disposals (A&D) programme. If the General Fund (GF) was to fund the gap of c.1,350 homes, it would require total capital funding of c.£298m. In addition, investment on existing homes for retrofit was re-profiled with a reduction of £64m across the ten years of the plan. To re-instate this would require an additional £64m to be provided through the General Fund capital programme. As set out in the separate General Fund Capital Programme report on this agenda, aspirations for capital expenditure greatly exceed available resources. Detailed templates on investment of £298m and £64m in unfunded Social Housing options are included in Appendix 6 of the General Fund capital report and are attached at Appendix 6 of this report for convenience.

2.3 While officer proposals currently do not provide support to the HRA, a further 1% increase in Council Tax could support capital funding of £55m which could deliver up to 249 new homes. Any support to the HRA would require Scottish Ministers' approval.

2.4 The updated investment plan includes c.£1,288m of investment on existing homes and estates, including whole house retrofit upgrade, major component replacement, health and safety and estate improvement.

2.5 A "long list" of potential options to use the GF to support HRA was developed with elected members in November 2024. An outline business case for these proposals was submitted to the Scottish Government for consideration in December 2024, with an aim to establish a sanctioned "short list" of proposals by mid-January 2025. Should the Council approve a budget that includes a contribution from the GF to the HRA, a final business case will be submitted for Ministerial Consent for implementation in 2025/26. Officers are actively engaged with Scottish Government colleagues on how such a model would work. An updated profile of unfunded capital priorities across all Council services is included in the separate General Fund Capital Budget report on this agenda. Additional investment through the General Fund is dependent on the achievement of a balanced medium-term GF revenue budget and, given risks to sustainability of the General Fund position, no GF support to the HRA is included in the General Fund 2025/26 reports at this time.

2.6 A Risks and Reserves report for the HRA Budget Strategy 2025/26 to 2034/35 has been prepared and is presented to this Committee meeting.

2.7 This report reflects the updated position following the draft Housing Revenue Account Budget Strategy 2025/26 to 2034/35 report that was presented to Housing, Homelessness and Fair Work Committee on 3 December 2024 and referred to Finance and Resources Committee on 16 January 2025 for noting.

3. Background

3.1 On 2 November 2023, the Council declared a Housing Emergency citing the homelessness crisis, severe shortage of social rented homes and increasing pressure within the private rental market in the city.

3.2 As part of the 2024/25 HRA budget, the Council agreed a five-year rent strategy on 22 February 2024 to increase rent by 7% per annum between 2024/25 and 2028/29, with an assumption that a 7% per annum rent increase over the following five years would be required to deliver the ten-year capital investment plan, to bring 12,400 homes to Energy Efficiency Standard for Social Housing 2 (EESSH2) standard and deliver 3,560 new social rented homes.

3.3 The Council also agreed to explore the possibility of offering rent reductions for those homes which have not been brought up to the appropriate standard and develop proposals to make the rent structure more linked to property condition.

3.4 Previous Committee reports have highlighted that due to the uncertainty on future years' grant funding allocations, it remains challenging to develop a steady pipeline of affordable housing projects. Therefore, reducing the reliance on grant funding in future years where possible is key to bringing an element of certainty back in the pipeline.

3.5 The Strategic Housing Investment Plan (SHIP) is reviewed annually and the latest SHIP 2025-30 was reported to Housing, Homelessness and Fair Work Committee on 3 December 2024. Based on the information received from delivery partners, around 9,200 potential affordable housing approvals for site start (of which just over 8,000 would require grant funding through the Affordable Housing Supply

Programme (AHSP)) and around 7,300 completions have been identified over the next five years. These figures are notably lower than the five-year projection from the previous SHIP and are indicative of a more cautious approach from partners given the levels of current funding and lack of certainty on future budgets. Based on the resource planning assumptions, there is a shortfall of £416m in grant funding over the next five years (after taking into account the grant benchmark uplift on 10 October 2024). The SHIP 2025-30 would require a 250% increase in funding to deliver the pipeline of new homes identified.

3.6 The SHIP also provides an update on the Scottish Government's £80m National Acquisition Programme announced in 2023/24. On 10 September 2024, Scottish Government confirmed an additional £14.882m of grant funding to Edinburgh, from a total of £40m allocated in 2024/25, the highest proportion of this funding amongst all local authority areas. This additional funding is ring fenced and can only be used to support the acquisition of new homes or for bringing void properties back into use and cannot be used for ongoing development work. The £14.882m of National Acquisition Fund grant will be used for a variety of purposes. A sum of £4m will be used to support the costs associated with bringing c.565 void Council homes back into use, with the remaining funding to be used to support the purchase of second hand homes for the Council as part of the A&D Programme, and off the shelf properties by the Council and Registered Social Landlord (RSL) partners.

3.7 The planning assumption for 2025/26 is that a further award of a comparable amount will be made to Edinburgh. Council officers are engaged with Scottish Government officials on how annual AHSP funding can be refined to place greater emphasis on areas of greatest need.

3.8 On 1 October 2024, Housing, Homelessness and Fair Work Committee considered the HRA budget strategy 2025/26 report. It set out the update on the HRA business plan assumptions to date and the plan for budget consultation. An addendum to the report was agreed, which requested officers to provide political groups with written guidance setting out the process and timescale on use the GF to support the HRA, as well as detailed information about Council Fees and Charges so that political groups can fully consider the impact of any proposals in their budgets in February 2025.

3.9 During the COVID-19 emergency, the Council was required to significantly increase the amount of temporary accommodation available to meet demand and comply with public health guidance. Efforts to withdraw from unsuitable temporary accommodation, alongside managing new cases of homelessness, has been a significant challenge, as set out in the Response to the Monitoring Officer Report on Conflicting Legal Obligations report to Housing, Homelessness and Fair Work Committee on 1 October 2024.

3.10 Subsequent to that report, a special Housing, Homelessness and Fair Work Committee was convened on 13 November 2024 to consider a report requesting the suspension of elements of the Council Lettings and Repairs policies until 7 January 2025. These recommendations were agreed, along with approval to bring a further report to the Committee to enable an extension of the new build home purchasing programme to increase temporary accommodation stock held by the Council.

4. Main report

4.1 The HRA Business Plan 2025/26 – 2054/55 is the financial framework that underpins the Housing service. The budget is prepared annually following the review of the 30-year HRA Business Plan and the 10-year Capital Investment Programme and consultation with tenants on investment priorities. It is also informed by statutory compliance and government targets, Council commitments, as well as major component replacement and health and safety.

4.2 The Business Plan seeks to make financial provision for the ongoing delivery of core commitments to:

4.2.1 Continue to deliver and improve housing management and maintenance services and support tenants to sustain tenancies;

4.2.2 Continue the programme to build new social rented Council homes to meet housing need;

4.2.3 Deliver the Scottish Government's requirement for social housing to meet the EESSH2 standard and contribute to the city's ambition to be net zero carbon;

4.2.4 Deliver improvements to mixed tenure blocks to make all blocks with Council tenancies warm, energy efficient, modern and secure;

4.2.5 Deliver an area-based approach to design and management of the Council's wider estates aligned to investment in new and existing homes; and

4.2.6 Support and enable large scale regeneration in the city (such as the regeneration of Granton waterfront).

4.3 The business plan assumptions are reviewed annually to reflect the latest operating environment. While this year's assumptions for expenditure have changed as a result of the review, the rental income assumption is set for 7% per annum for the next nine years, as 2025/26 is the second year of the approved five-year rent strategy and assumed income requirements to deliver the approved 10-year investment plan.

4.4 Since the 2024/25 budget was approved in February 2024 many of the key assumptions have changed. The review on the capital investment programme, especially in relation to the affordable housing grant assumptions, has seen the delivery of new social rented homes reduced by c.1,350 homes to reflect the reduction in Edinburgh's Affordable Housing Supply Programme (AHSP) grant allocation in 2024/25 and a more prudent assumption on the level of AHSP across the 10-year programme. £64m of investment to c.600 existing homes has also been re-profiled to beyond the 10-year period.

4.5 The provisional 2025-26 Local Government Finance Settlement was provided on 19 December 2024, setting out draft public spending in 2025/26. This included the re-instatement of the Affordable Housing Grant to comparable levels as 2023/24. Edinburgh's allocation has yet to be advised, and the Business Plan does not reflect any assumed benefit for 2025/26 or future years, pending confirmation of Edinburgh's allocation and consideration of distribution of overall AHSP to the Council's HRA programme.

4.6 The investment in existing homes and estates has been updated to reflect both the internal and external resource capacity to deliver the relevant programmes, the timeframes in which borrowing for the retrofit programme can be made, as well as plans to increase investment to address damp and mould and repair Reinforced Autoclaved Aerated Concrete (RAAC) properties within the Council estates.

4.7 The high-rise blocks within the Council estates were typically constructed around the 1960's, some using non-traditional construction methods and materials for the time. As such, specific bespoke design for whole house retrofit investment and intrusive survey processes are required for the various construction types found across these blocks. 12 blocks are now in various stages of design and development for full block retrofit and upgrade, with six high rise blocks (Oxcars and Inchmickery Court, Craigmillar and Peffermill Court, and Cables Wynd and Linksview House) expected to start on site in 2025/26 and the six Moredun high rise blocks in 2026/27. The latest investment plan assumes upgrade in 33 blocks, involving c.2,600 Council and privately owned flats, over the next 10 years.

4.8 Based on the internal resource capacity, it is estimated that c.6,600 homes in low- (and medium) rise blocks will be upgraded over the next 10 years, giving a total of c.9.200 homes across both high- and low-rise blocks.

4.9 Changes affecting the revenue expenditure and income has reduced the year 10 reserve balance from c.£75.0m before the review to c.£18.97m. A summary of the changes on the key assumptions is set out under the Financial Impact section of this report.

Tenant Consultation

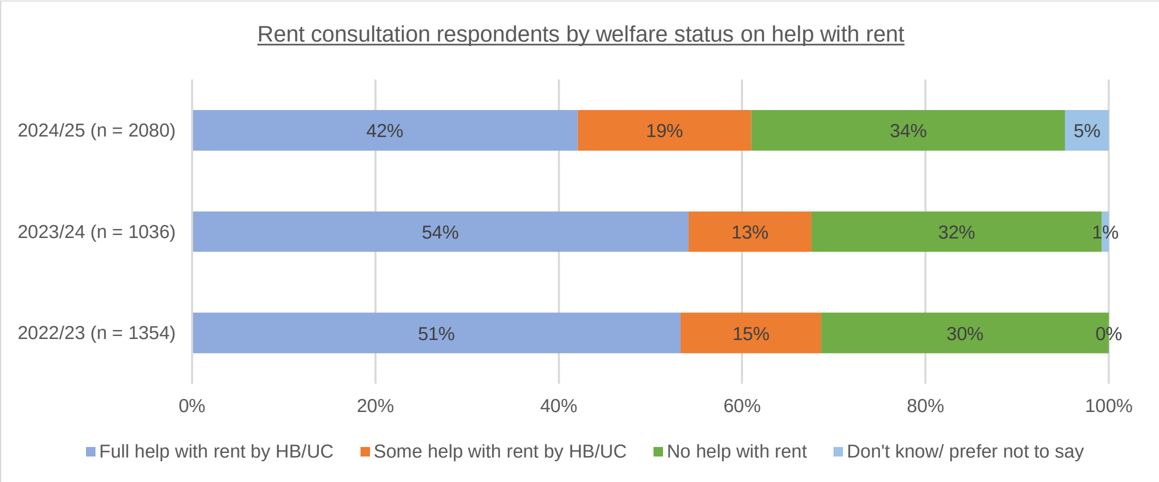
4.10 With a five-year rent strategy approved by the Council in February 2024, this year's consultation focussed on how tenants' rent is spent and the key investment priorities (set out in paragraph 4.2) within the context of increasing costs and constrained funding.

4.11 This year's consultation ran between 4 October and 29 November 2024 and 773 responses were received. Most of the tenants (68%) who responded to the consultation were not aware of the approved five-year rent strategy. Many commented that rent increase should be linked with property condition, highlighting the importance of getting repairs and upgrades done properly and promptly. This is also reflected in the investment priorities, with *"deliver and improve housing management and repairs and maintenance services"* being the top priority for most respondents, followed by building more social rented homes.

4.12 40% of tenants have found it more difficult to pay for their rent over the last 12 months, this is more than the 34% in last year's consultation survey. This increase could be partly due to a higher percentage of respondents being "self-payers" and receiving no government help to pay their rent; 40% in this year's consultation comparing to the 30-34% in previous years as noted below. Of those who said they had found it more difficult to pay for their rent over the last 12 months, 53% did not get help from government to pay their rent and 47% received help to pay for all or part of their rent.

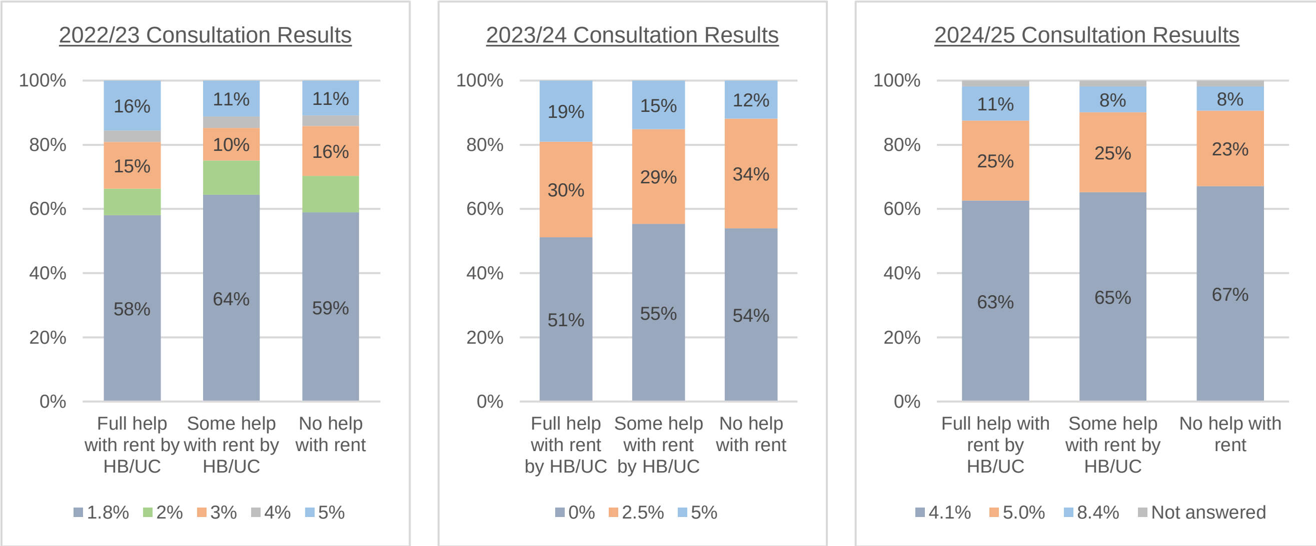
4.13 Graph 1 compares the rent increase options voting results by benefits status in the last three years. It shows that tenants responding to the rent consultation were roughly in line with the overall tenants' profile, with about two thirds of the respondents getting help from Housing Benefit (HB) or Universal Credit (UC) to pay for their rent (including those saying don't know / prefer not to say) and a third of the respondents receiving no help to pay their rent.

Graph 1: Rent consultation respondents by welfare status on help with rent



4.14 Graph 2 also suggests that the voting pattern between groups with different benefit status were similar, with the lowest rent increase option in each year being the most popular option and the highest rent increase option chosen by 10-20% of the respondents.

Graph 2: Rent options voting result by welfare status on help with rent



4.15 Scotland's Housing Network surveyed its members on the rent increase options for consultation with tenants. Sixteen local authority landlords who consulted on a rent increase for 2025/26 responded to the survey and offered a total of 36 rent increase options for consultation. The average 'lowest' rent increase options was 6.76% and the overall most common options being consulted on was in the 'more than 8.5%' category. Eight of the 16 landlords only consulted on rent options at 7% or above, i.e. proposing a minimum rent increase of 7% or above, and four other landlords had 7% or above as one of the proposed rent increase options. Many stated the challenging operating environment that social landlords are facing, and that above inflation rent increase is required to pay for the increased costs on managing day-to-day services, as well as the capital investment required to bring homes up to meet various statutory standards.

4.16 Private rents in Edinburgh have increased by an average of 7.0% a year over the last five years, while local authority landlords have increased rents by an average of 3.1% a year in the last five years and housing associations have increased rents by an average of 3.7% a year over the same period.

4.17 For the last five years, Council rents have increased by an average of 2.4% a year. The average council rent (two-bedroom flat) is 49% below Local Housing Allowance and 66% below the average market rents in the city. Even with another 7% rent increase applied to 2025/26, average council rent (two-bedroom flat) is still 46% below Local Housing Allowance and 64% below the average market rents in the city.

4.18 The rent consultation results found that 40% of the respondents had found it more difficult to pay their rent over the last 12 months, of which only 40% had gone onto to seek advice or help to assist with paying their rent. For those who had sought advice or help, 40% were very or fairly satisfied that the assistance they received met their needs, compared to 26% who were very or fairly dissatisfied. The remaining 34% were neither satisfied nor dissatisfied. Tenants commented the importance of promoting the advice and support available regularly and that the information needed to be more accessible. Ensuring a range of supports that are available to tenants are publicised and accessible is one of the actions in the Housing Emergency Action Plan.

4.19 Between 70% and 80% of tenants get help to pay their rent through HB or the housing element of UC. These tenants, including those on partial benefits, are usually not affected by any proposed rent increase as their HB/UC entitlement will increase to cover the rent rise, assuming there are no other changes in the household circumstances, and they are not affected by a benefits cap and/or under-occupation reduction.

4.20 For those who do not receive help with their rent; the Scottish Government's [‘Rent affordability in the affordable housing sector’] report highlights that *‘The oldest and most commonly used measure of rent affordability internationally…based on research, a rent can be considered affordable when housing costs do not consume more than 30-40% of households’ incomes’.* After rent is increased for 7% in 2025/26, and assuming the projected National Living Minimum Wage (for workers who age 21 or over) in the new financial year, rents of all sizes of homes would still be less than 32% of income.

4.21 The Tenant Hardship Fund was set up as part of 2023/24 HRA budget to support tenants experiencing financial hardship, including those who cannot access benefits. In the first year of operation, 2,585 awards were made, with a total of £576,332 paid out to tenants. The 2025/26 budget assumption for the Tenant Hardship Fund has been updated to align with the rent increase assumptions (7% per annum for the next nine years) used in the business plan and the extended criteria.

4.22 The criteria of the Fund has been extended to assist tenants facing pressing personal / family financial pressures (for example, to replace or repair household appliances, to pay for school activities and to meet demands for energy bills or personal debts). The maximum award has also been increased to two fortnightly (four weeks) rent payments where appropriate. In the first nine months of 2024/25, 1,313 applications have been received and £316,854 has been awarded to 809 tenants. The majority of the remaining applications are either being reviewed or awaiting further information for the application. There are c.160 refused or duplicate applications.

Fees and Charges

4.23 Fees and charges for additional services provided as part of tenancies (e.g. stair cleaning, communal heating, furnished tenancies, etc) had been frozen for seven years prior to the increase in 2023/24. The majority of these charges cannot be covered by benefits and therefore having been frozen provide a direct financial saving to tenants.

4.24 It is currently assumed that fees and charges, except for the communal heating and heat with rent charges, will be increased at the same rate as the Council's budget framework assumption of 5%. However, this can vary depending on policy, statutory or contractual reasons and could be higher or lower as required for some elements. Heating charges will be frozen in 2025/26 while a detailed review is being conducted.

4.25 An addendum to the HRA budget strategy 2025/26 report in October requested officers to provide political groups with detailed information about Council fees and charges relating to the housing service or HRA. The review of fees and charges for 2025/26 is ongoing and a briefing paper on the proposed changes will be prepared for the housing spokespeople in early 2025.

Use of General Fund to support HRA

4.26 As previously reported, to obtain the relevant Ministerial consent for any GF contributions, Scottish Government officials indicated that a local authority should outline the case for transferring funds from the GF to the HRA, including the amount (in money terms) involved; the number of years the transfer will be required and the justification for the transfer. Scottish Government officials also stated that the HRA should have explored all options within the flexibilities already available to the HRA and this would have to be demonstrated in any business case. It should also set out the resource capacity available from the GF; the services that may be impacted by the transfer; and the plans for public consultation about the transfer if consent was granted.

4.27 Engagement with Scottish Government officials indicated that it would take approximately six weeks to secure full Ministerial Consent. Taking into account the time required to develop budget proposals prior to the Council budget meeting in February 2025, consultation with the public, and business case to be submitted for Ministerial Consent (before the implementation of any agreed budget proposals in 2025/26) this is being progressed over two stages.

4.28 A “long list” of budget proposals has been established and set out in Appendix 4. An outline business case (without specific financial details) was submitted to Scottish Government in December, with an aim to create a “short list” of proposals that have “agreement in principle” by mid-January 2025.

4.29 Any response received from the Scottish Government will be shared with all political groups to help formulate their budget proposals in advance of the Council budget meeting in February 2025. Should the Council approve a budget that includes a contribution from the GF to the HRA, consultation on the agreed proposals will be conducted with the public and a final business case including final subsidy amounts will be submitted for Ministerial Consent in advance of implementation in 2025/26.

4.30 An updated profile of unfunded General Fund capital priorities across all Council services is included in a separate report on this agenda. Additional investment through the General Fund will be dependent on the achievement of a balanced medium-term General Fund revenue budget. Given resource capacity constraints and risks, no additional investment in the HRA is assumed within the General Fund budget reports which are considered on this agenda.

4.31 While officer proposals currently do not provide support to the HRA, a further 1% increase in Council Tax could support capital funding of £55m which could deliver up to 249 new homes. Any support to the HRA would require Scottish Ministers' approval.

Unsuitable Accommodation Order – Temporary Accommodation

4.32 At December 2024 there were 1,427 homeless households in unsuitable temporary accommodation. The Council previously approved a programme to purchase up to 270 properties for use as suitable temporary accommodation and this target has been achieved. As part of a package of measures to address the number of households currently in unsuitable accommodation, approval is requested to continue this programme with a target to purchase up to a maximum of 150 additional properties during 2025/26. Whilst the properties will be purchased by the HRA, all associated costs of loans charges and repairs and maintenance will be recharged to the Homelessness service.

4.33 This is estimated to achieve net annual savings of approximately £2m for the Homelessness service, and this benefit has been considered when assessing the Homelessness service budget requirement for 2025/26.

5. Next Steps

5.1 An outline business case for a "long list" of options to use GF to support HRA was developed and submitted to the Scottish Government in December 2024, with an aim of seeking agreement in principle for a "short list" of proposals. Should the Council approve a budget that includes a contribution from the GF to the HRA, a final business case will be prepared and submitted for Ministerial Consent for implementation in 2025/26, with consultation on any approved business case being undertaken following the Council budget decision.

5.2 Policy and Sustainability Committee agreed that a report on the breakdown of the proposed spend on housing from the Visitor Levy for Edinburgh would be presented to Housing, Homelessness and Fair Work Committee in three to four cycles (summer 2025), exploring specific details of how the money could be spent to support affordable housing.

5.3 The detailed 2025/26 Capital Investment Programme will be reported to Housing, Homelessness and Fair Work Committee in May 2025 with any proposed updates to the capital programme being presented to Finance and Resources Committee, for approval in August 2025.

5.4 In 2022/23, the Council adopted the methodology developed by the Institute for Climate Economics (I4CE) to better understand how spending plans for the General Fund are aligned with the Council's net zero ambition. In 2025/26 this will be extended to the HRA and the outcomes presented in future reports.

5.5 Research will continue to inform a potential rent differentiation proposal and modelling scenarios to make the rent structure more linked to property condition.

Progress update will be provided to Housing, Homelessness and Fair Work Committee through briefing papers, business bulletins and committee reports as appropriate.

6. Financial impact

6.1 In February 2024, Council approved the HRA budget strategy, supported by a rent increase of 7% per annum for five years starting in 2024/25, with an assumption that 7% per annum rent increase for the following five years would be required to deliver the approved ten-year investment programme.

6.2 The Business Plan is reviewed and updated annually. It is rolled forward based on approved budget assumptions, the previous financial year outturn and current year forecast outturn, as well as the latest market intelligence and service area projections. Key changes on the assumptions since the budget approved in February 2024 include:

6.2.1 **2023/24 outturn and 2024/25 forecast outturn** – The business plan is updated to reflect the 2023/24 outturn and forecast 2024/25 outturn. There has been a negative impact due primarily to higher than budgeted expenditure on repairs and maintenance, and delays in void properties and new build properties coming into use impacting on income received in 2023/24 and 2024/25;

6.2.2 **Repairs, environmental maintenance and property costs** – Additional budget has been made available in 2025/26 to ensure the target level of voids is maintained for the long term. Additional funding has also been built into the plan to address damp and mould. An assumed saving on ground maintenance expenditure has been reduced after reviewing the actual expenditure in 2023/24. Expenditure on non-domestic rates has increased following the change of policy on exemption for vacant land and it is assumed that this will be an annual impact throughout the plan. The impact of these additional budget requirements has been largely mitigated from reviewing the funding required for planned maintenance which has been reduced accordingly;

6.2.3 **Decants for Whole House Retrofit (WHR) work** – With WHR improvement work in Oxcars and Inchmickery Court and Craigmillar and Peffermill Court expected to start on site in 2025/26, the costs of decanting affected tenants have now been assumed in the business plan. The impact of additional expenditure and reduced rental income to support the retrofit programme is estimated at £4.9m over the next 10 years of the business plan;

6.2.4 **Tenant Hardship Fund** – Budget provision for Tenant Hardship Fund has been extended from the previous five years, which aligned to the five-year rent strategy, to 10 years (from 2024/25) with budget uplifts aligned with the 7% rent increase assumption used in the business plan;

6.2.5 **Inflationary change, including staff costs inflation** – Inflation assumptions, including utilities and staff related pay uplifts, have been reviewed and updated and are consistent with the assumptions used in the General Fund budget planning process. An additional contingency of 1% relating to pay uplifts has been assumed across all ten years of the business plan due to the profile of grades contained within the HRA and recent pay uplifts providing a higher percentage to lower graded posts. The overall impact is estimated at an additional cost of £13.8m over the ten years of the business plan;

6.2.6 **Employers National Insurance** – the UK Government recently announced changes to employers National Insurance contributions and the impact on Council employed staff and third-party contractors is estimated at £15.9m across the ten years of the business plan; and

6.2.7 **Bad debt provision** – taking account of the latest position on rent arrears and reflecting the assumed rent increase of 7% across the first nine years of the business plan, the core bad debt provision has been increased from 1.52% in 2024/25 to 2.52% by year five of the business plan and is maintained at this level for years six to 10. An additional allowance has been made on top of the core bad debt rate relating to tenants moving to Universal Credit up to 2026/27.

6.2.8 **Interest rates supporting capital investment** – following a review of the most up to date market conditions, the interest rate for future borrowing has been updated. This has resulted in the pool rate (the combination of interest costs of existing borrowing plus interest costs of future borrowing) being updated from the 4.25% used in the 2024/25 Business Plan to 4.29% in 2025/26 rising incrementally to 4.74% by year five. Years six to 10 have also been costed at an estimated pool rate of 4.74%. This has added an estimated additional £51.2m of costs across the ten years of the business plan. Further details on interest rates and the assumptions for the Council and HRA will be contained in the Annual Treasury Management 2025/26 report to be presented to Finance and Resources Committee on 13 March 2025.

6.3 Other minor changes include additional costs to increase the training budget for staff development and the profile and total income due from Edinburgh Living, as well as the positive impact of changes in employee pension contributions for the period 2024-2027.

6.4 The significant changes to the position as reported to Housing, Homelessness and Fair Work Committee on 3 December 2024 relate to the changes to pay award assumptions for years six to 10 of the plan, the impact of the changes to employers National Insurance Contributions, increasing the bad debt provision and updating the interest rate assumptions to reflect the most up to date conditions of the market.

Capital Investment

6.5 Reviewing the capital investment plan forms an important part of the annual review of the business plan due to the scale of investment and the associated repayment costs on the revenue budget. The most critical change on this year's capital investment plan is the assumption on affordable housing grant available to the Council's housebuilding programme.

6.6 Based on the average grant awarded to the Council's housebuilding programme in previous years and its share of the pipeline in the city, the business plan now assumes an affordable housing grant of £15m a year, or £150m over a 10-year period. This is a reduction of £385m from last year's 10-year investment programme.

6.7 The reduction of grant assumption has resulted in the previously assumed delivery of new social rented homes reducing by c.1,350 from 3,560 homes to c.2,210 homes over the 10 years from 2024/25. Should the Resource Planning Assumption (RPA) for the city be revised in future years, the current grant assumptions of £15m would need to be adjusted accordingly, affecting the delivery of the c.2,210 homes concerned. To bring the c1,350 homes back into the programme, additional capital funding of £298m would be required. The plan does not include any additional income that may be available through the Draft Visitor Levy for Edinburgh.

6.8 The provisional 2025-26 Local Government Finance Settlement was provided on 19 December 2024, setting out draft public spending in 2025/26. This included the re-instatement of AHSP grant to comparable levels to 2023/24. Edinburgh's allocation has yet to be advised, and the Business Plan does not include any assumptions for 2025/26 or future years of additional funding. An update will be reported to Housing, Homelessness and Fair Work Committee when the allocation is confirmed, and distribution of Edinburgh's allocation has been considered.

6.9 The investment in existing homes and estates has been updated to reflect both the internal and external resource capacity to deliver the relevant programmes, the timeframes in which borrowing for the retrofit programme can be made, as well as plans to repair RAAC properties within the Council estates and provide additional investment to address damp and mould. To keep the overall financial commitment for the 10-year capital programme similar to last year's programme, £64m of high-rise investment, involving c.600 homes, has been reprofiled beyond the 10-year period.

6.10 Bringing together the requirement to deliver the 3,560 social rented homes in last year's programme and the £64m high-rise investment back into the 10-year programme, there would be a requirement to identify funding of £298m and £64m respectively through the General Fund capital programme. Further detail on these unfunded priorities is included in Appendix 6. The delivery of unfunded capital expenditure priorities through the General Fund is dependent on the achievement of a balanced medium-term revenue budget and Scottish Government approval.

6.11 While officer proposals currently do not provide support to the HRA, a further 1% increase in Council Tax could support capital funding of £55m which could deliver up to 249 new homes. Any support to the HRA would require Scottish Ministers' approval.

Reserve (Strategic Housing Investment Fund (SHIF))

6.12 As stated in the October report, the annual review of the business plan has been adopting a working assumption to build up and maintain a reserve (SHIF) balance of a minimum of c.£25m. The aim of the reserve is to put in place a prudent contingency to deal with any emergencies, unforeseen circumstances, or changes to key assumptions including income, inflation, pay uplifts and borrowing costs.

6.13 Following the changes made to the business plan, as set out above, the forecast reserve balance at year ten has reduced from £75.0m, as per the 2024/25 Business Plan, to £18.97m for the proposed 2025/26 Business Plan, with a minimum balance of £15.38m in year eight. Balances remain above £25m for years one to five, with average forecast reserves of £37m across this period.

6.14 To align with the GF budget process, a Risks and Reserves report has been presented to this Committee meeting which highlights the key risks that the HRA is exposed to, and the strategies being applied to mitigate these risks.

Unsuitable Accommodation Order – Temporary Accommodation

6.15 The cost to purchase an additional 150 properties and conduct any upgrades required to meet energy efficiency standards, is estimated at £25.923m. Based on an interest rate of 5% the principal, interest, total re-payments, and annual charge is set out in the table below. All these costs will be re-charged to the Homelessness service and the costs, and associated savings from reduced use of Bed and Breakfast accommodation, will be considered when assessing the funding requirements for the Homelessness service.

Description	Principal	Interest	Total	Average Charge
Estimated Purchase price and energy efficiency works	£25,923,000	£24,792,228	£50,715,228	£1,690,508

7. Equality and Poverty Impact

7.1 As stated in the HRA budget strategy report to Housing, Homelessness and Fair Work Committee in October 2024, the 2025/26 HRA budget strategy seeks to continue the strategy approved in February 2024. The current strategic investment approach for existing homes is to target investment in areas that fall within the 20% most deprived areas as per the Scottish Index of Multiple Deprivation (SIMD), in line with a climate justice approach and those who are most at risk of fuel poverty.

7.2 The Edinburgh Poverty Commission aims to make Edinburgh a city where:

7.2.1 Fewer than 1 in 10 children and adults live in poverty at any given time;

7.2.2 No-one is trapped in long term persistent poverty;

7.2.3 No one has to go without the basic essentials they need to eat, keep clean and safe, and stay warm and dry; and

7.2.4 No one feels stigmatised, abandoned, or treated with less respect by the city when seeking or needing support.

7.3 One of the key actions to end poverty in Edinburgh includes ‘a decent home we can afford to live in’. The Child Poverty (Scotland) Act 2017 sets out targets to reduce the proportion of children in poverty by 2030. Three drivers which can lead to measurable improvement in income for low-income households were identified as:

7.3.1 Increasing income from employment;

7.3.2 Reducing costs of living; and

7.3.3 Increasing income from social security and benefits in kind.

7.4 Increasing the number of affordable homes in the city will therefore have a positive impact on child poverty. However, cost of living is just one driver. Priority families most at a higher risk of poverty include lone parents, disabled, minority ethnic, young mothers, children under one years old and families with three or more children. In 2023/24, 74% of Council homes were let to homeless households.

7.5 Bringing the number of void properties down to the target level would help to make the best use of the limited resources, providing more settled accommodation to homeless households and helping to tackle the housing emergency.

7.6 Investment in adaptations in Council homes will enable tenants to live independently in their own homes. It could also help to reduce hospital admission and delayed discharge, providing a positive health and social care outcomes.

7.7 The 7% rent increase to be implemented in 2025/26 as part of the agreed five-year rent strategy may have a disproportionate impact on tenants not receiving government help with their rents, increasing the financial challenge faced by the tenants. The Council will continue working with advice agencies within the city to provide appropriate advice and support for tenants facing financial hardship. The continuation and extension of the Tenant Hardship Fund will help tenants who are experiencing pressing financial pressures.

7.8 The Energy Advice Service, which was expanded in February 2023, continues to help tackle fuel poverty, by providing advice and information to Council tenants on operating heating systems efficiently, applying grants and loans, accessing suitable tariff, and referring tenants to Income Maximisation Service where appropriate.

8. Climate and Nature Emergency Implications

8.1 As a public body, the Council has statutory duties relating to climate emissions and biodiversity. The Council *“must, in exercising its functions, act in the way best calculated to contribute to the delivery of emissions reduction targets”*

(Climate Change (Emissions Reductions Targets) (Scotland) Act 2019), and

“in exercising any functions, to further the conservation of biodiversity so far as it is consistent with the proper exercise of those functions”

(Nature Conservation (Scotland) Act 2004)

8.2 The City of Edinburgh Council declared a Climate Emergency in 2019 and committed to work towards a target of net zero emissions by 2030 for both city and corporate emissions and embedded this as a core priority of the Council Business Plan 2023-27. The Council also declared a Nature Emergency in 2023.

Environmental Impacts

8.3 The budget strategy aims to support the delivery of the core commitments listed in paragraph 4.2. The WHR programme will ensure all existing homes achieve high energy efficiency standards (e.g. EESSH2) by adopting a fabric first approach, helping to meet the Council’s net zero commitment. Energy options appraisal will be undertaken for each WHR project at the design stage, taking account of the best low carbon/renewable heating option for the development concerned, cost for tenants to run and costs for the Council to install and maintain, ensuring a just transition.

8.4 The A&D programme helps to increase the number of Council homes available and consolidate block ownership, which in turns helps the Council to manage block repairs and improvements, including those progressed through the Mixed Tenure Improvement Service.

8.5 The Mixed Tenure Improvement Service aims to improve the common area of mixed tenure blocks, including the external fabric that helps to improve the energy efficiency of the buildings, benefiting both Council tenants and other residents within the blocks.

8.6 The Council led house-building programme prioritises delivery of homes on brownfield sites, reducing pressure on Edinburgh’s green belt. Building more homes will inevitably produce more carbon, however, the Council aims to build homes as energy efficiency and sustainable as possible. Since November 2020, all new build Council homes have been designed to achieve net zero carbon.

8.7 Investment in open space through the Estate Improvement Programme (EIP), with a focus on nature and biodiversity, will have a positive environmental impact. It is acknowledged that some of the projects promoted through the EIP may potentially have a negative impact, for example, proposals to change soft landscaping spaces to hard landscaping or create parking spaces to relieve pressures in residential streets. Officers will seek to minimise such projects and explore alternative solutions to resolve local issues.

8.8 The Energy Advice Service provides advice and information to Council tenants to operate heating systems efficiently. It also supports tenants to apply grants and/or loans for installing energy efficiency measures in their homes, which helps to alleviate fuel poverty and reduce carbon emissions.

8.9 In 2022/23, the Council adopted the methodology developed by the Institute for Climate Economics (I4CE) to better understand how spending plans for the General Fund are aligned with the Council's net zero ambition. In 2025/26 this will be extended to the HRA and the outcomes presented in future reports.

9. Risk, policy, compliance, governance and community impact

9.1 Each year the views of tenants are sought on the HRA budget strategy, investment plan, services, and associated rent levels. With a five-year rent strategy approved by the Council in February 2024, this year's consultation focussed on how tenants' rent was spent and the key investment priorities within the context of the reduced government grant funding for new affordable housing, instead of rent levels. As the approved rent strategy covers the years 2024/25 to 2028/29, rent increase from 2029/30 onwards will be subject to consultation with tenants and Council's approval.

9.2 The consultation document was developed with input from Edinburgh Tenant's Federation (ETF), with additional questions included in the budget consultation survey upon feedback from the ETF.

9.3 The consultation ran between 4 October to 29 November 2024 and 773 online and postal responses were received.

9.4 The budget consultation information was incorporated into the Autumn issue of the Tenants' Courier newsletter, which was posted to all Council tenants during the consultation period. Tenants were able to respond to the survey by post using the Freepost envelope provided. Alternatively, tenants could respond to the consultation survey online through the Consultation and Engagement Hub.

9.5 Tenants who responded through the online survey were also asked to feedback on the engagement/ consultation process. More than two-thirds of the respondents agreed they were given all the information they need to have a say, and more than three quarters of the respondents agreed they were given opportunity to have their say. Tenants were asked if they agreed or disagreed the following statements:

9.5.1 *'I was given all the information that I needed to have my say.'* – 68.3% agreed, 6.7% disagreed and 25.0% neither agreed nor disagreed, or didn't know.

9.5.2 *'This consultation was clear and easy to understand.'* – 78.7% agreed, 2.9% disagreed and 18.4% neither agreed nor disagreed, or didn't know.

9.5.3 *'I was given the opportunity to have my say'* – 77.6% agreed, 5.0% disagreed and 17.4% neither agreed nor disagreed, or didn't know.

9.6 The consultation was promoted through email footers and targeted social media posts. An email prompt to complete the survey and promote it to tenants within their groups had been sent to Registered Tenant Organisations (including Living Rent). In addition, where email addresses were available, tenants were sent email reminders to respond to the survey during the consultation period.

Risks and Reserves

9.7 A separate report titled 'Housing Revenue Account Budget Strategy 2025/26 to 2034/35 – Risks and Reserves' is being presented to this Committee providing details of the key risks for the HRA revenue budget along with options to mitigate risks that may significantly affect the ongoing financial viability of budget.

9.8 The key risks for developing and implementing a sustainable HRA budget strategy include:

9.8.1 The rate of income collection and number of income-generating properties are lower than assumed;

9.8.2 Increased expenditure on repairs and maintenance (R&M);

9.8.3 Increased expenditure on delivering day-to-day housing management service;

9.8.4 Increased costs relating to inflation and pay uplifts;

9.8.5 Increased costs of the capital programme which in turn leads to increased loans charges for the revenue budget;

9.8.6 Reductions to the grant funding assumptions within the capital programme;

9.8.7 Increased interest rates for borrowing to support delivery of the capital programme;

9.8.8 Lack of receipts from Edinburgh Living for the mid-market homes that form part of the new build programme;

9.8.9 Unforeseen statutory changes; and

9.8.10 Future rent increases for the first nine years of the Business Plan not being at the assumed 7% a year.

9.9 All current and emerging risks will be subject to ongoing tracking, development of mitigation measures and review for the remainder of 2024/25 and throughout 2025/26 and will be reported to senior management teams and Committees as required.

10. Background reading/external references

10.1 Strategic Housing Investment Plan (SHIP) 2024-29 – Housing, Homelessness and Fair Work Committee, 5 December 2023.

10.2 Housing Revenue Account (HRA) Budget Strategy 2024/25 – 2028/29 – City of Edinburgh Council, 22 February 2024.

10.3 Increasing Affordable Homes Delivery – Housing, Homelessness and Fair Work Committee, 27 February 2024.

10.4 2024/25 Housing Revenue Account Capital Programme – Housing, Homelessness and Fair Work Committee, 14 May 2024.

10.5 Update: Strategic Housing Investment Plan 2024/25 – 2028/29 – Housing, Homelessness and Fair Work Committee, 14 May 2024.

10.6 Affordable Housing Programme Update 2024/25 – Housing, Homelessness and Fair Work Committee, 27 August 2024.

10.7 Housing Revenue Account Budget Strategy 2025/26 – Housing, Homelessness and Fair Work Committee, 1 October 2024.

10.8 Housing Revenue Account Budget Strategy 2025/26 to 2034/35 – Housing, Homelessness and Fair Work Committee, 3 December 2024

10.9 Strategic Housing Investment Plan (SHIP) 2025-30 – Housing, Homelessness and Fair Work Committee, 3 December 2024

11. Appendices

Appendix 1: Core Business Plan Assumptions

Appendix 2: Housing Revenue Account Budget 2025/26 (Draft)

Appendix 3: Draft Five-Year and Ten-Year HRA Capital Investment Programme

Appendix 4: Long list of proposals of using the GF to support the HRA

Appendix 5: Proposed rent levels at a 7% rent increase

Appendix 6: Social Housing and High-Rise Retrofit Templates

Appendix 1: Core Business Plan Assumptions

Input	2025/26	Note
Inflation **(Operating Costs)**	**2.5%**	This assumption aligns to the Council's General Fund 2025/26 budget framework and business plan for the following four years, before returning to the Bank of England inflation target of 2%.
Inflation **(Employee Costs)**	**4%**	This assumption mirrors that of the Council's General Fund 2025/26 budget framework and business plan of 3%, with an additional contingency of 1% to take account of recent pay awards that have applied higher increases to lower grades for which the HRA has a higher proportion than other areas of the Council. The HRA does not benefit from any Scottish Government grant for local government pay deals, as it is self-financed and ringfenced from the General Fund.
Rent Increase	**7%**	Reflects 2024/25 Administration Motion of 7% rent increases for five years, with an assumption that 7% for years six to ten would be required to achieve the outputs indicated in the ten-year capital investment programme. In year ten of the 2025/26 Business Plan a rent increase of 3% has been assumed.
Net Rental income	**95.67%**	Total projected rental income, minus written off former tenant arrears, bad debt provision, rent loss due to empty homes and provision for the Tenant Hardship Fund, the latter being 0.62% of gross rental income.
Former tenant arrears write off and bad debt provision as a %age of gross rental income	**2.68%**	Any rental debt outstanding for over three months, where there have been no payments received or there is no agreed repayment arrangement, is written off annually. The write off assumed in 2025/26 is expected to be higher to that in 2024/25. The bad debt provision assumed in the 2025/26 business plan is also higher than that of 2024/25 to reflect the potential impact of the rent increase of 7% a year.
Rent lost on empty homes	**1.04%**	This assumption is based on the long-term average estimated performance, which is then applied over the 30-year business plan period. The position has improved for 2025/26 and reflects the work required to improve the backlog of empty homes. The work plan which is part of the Housing Emergency Action Plan is forecasting to get the voids and the on-debit rent charging position down to target by March 2025.
Fees and charges increase	**In line with Council's budget framework assumption of 5%; except for heating charges at 0%**	These are fees and charges for additional services provided with tenancies (e.g. communal heating, furnished tenancies, etc) and other operational factors. Fees and charges will be increased at the same rate as the Council's budget framework assumption of 5%. However, this can vary depending on policy, statutory or contractual reasons and could be higher or lower as required for some elements. Communal Heating and Heat with Rent charges will remain frozen in 2025/26 while a detailed review is conducted.
Debt level (projected for March 2025)	**£634m**	Increased from £512m as at 31 March 2024. This was due to an increased borrowing requirement to support the capital investment programme in 2024/25.
Pool rate for borrowing	**4.29%**	The pool rate (existing debt and estimated future debt) is 4.29%, an increase from the 4.25% used in the 2024/25 Business Plan. This rate increases incrementally to 4.74% by year five of the Business Plan and is maintained at this rate for years six to ten.

Appendix 2: Housing Revenue Account Budget 2025/26 (Draft)

	Projected Outturn 2024/25 (£m)	Proposed Budget 2025/26 7.0% rent increase (£m)	Movement (£m)	Note
Net Income	**118.032**	**133.034**	**15.002**	1
Expenditure				
Housing Services	40.520	40.131	-0.389	2
Property Maintenance	28.267	31.998	3.731	3
Debt Charges	46.534	56.962	10.428	4
Contribution to the Strategic Housing Investment Fund reserve	2.711	3.943	1.232	5
Total Expenditure	**118.032**	**133.034**	**15.002**	

Note 1.
"Net Income" is the total rent due to be collected, less written off former tenant arrears, a provision for both bad debt and Tenant Hardship Fund and rent loss due to on-debit empty homes. It also includes income from interest, service charges and costs recovered in relation to communal heating schemes and owner occupiers. The net income is expected to be increased by 14.35% compared to last year's budget if the proposed rent increase of 7.0% is approved. Due to the void property work plan and project team that has been in place for 2024/25 delivering to forecast targets and reducing void property turnaround times, an assumption has been made showing a reduction to the void rent loss budget provision for 2025/26. The average weekly rent will increase by £8.23 under a 7.0% rent increase.

Note 2.
"Housing Services" includes core housing management services and tenant and community services like energy advice and community gardens. It includes employee costs, central support costs and recharges, premises costs and other expenditure linked to service delivery and their corresponding inflationary increases. The employee costs have been reviewed to reflect the expected pay awards and spinal column point changes. Staff cost inflation is assumed to be 3% for 2025/26 in line with General Fund assumptions. An additional 1% contingency has been included in the HRA budget to take account of recent pay awards that have applied higher increases to lower grades for which the HRA has a higher proportion than other areas of the Council. In addition, budget provision has been increased to account for the increased rate of employers' contribution on National Insurance. For non-staff costs, an inflation rate of 2.5% has been assumed for most costs. The draft budget also includes £0.26m for the enabling work of large-scale regeneration, this is a reduction from the 2024/25 forecast where a spend of £1.3m is assumed. The 2024/25 forecast primarily relates to the Granton Waterfront site, and most costs for this project are expected to be capitalised from 2025/26. This will be monitored along with the capital programme and, where appropriate, relevant expenditure will be capitalised in year.

Note 3.
"Property Maintenance" includes responsive repairs, estates maintenance, routine gas servicing and the costs associated with bringing empty homes back into use. Within the 2024/25 forecast it is anticipated that £4m of additional Scottish Government funding will be available to offset some of the void expenditure, no such funding is assumed in the 2025/26 budget. In 2025/26, the repairs budget for responsive and servicing spend has been increased to reflect recent years spend, an increased focus on damp and mould related expenditure, expected inflationary adjustments for internal labour and materials costs and CPI increases relating to the external sub-contractor framework, including an allowance for employers' National Insurance contributions on both internal and external labour costs. A provision of £0.250m has been made for the start of planned maintenance costs. The 2025/26 budget also includes an allowance for some continuation of higher void expenditure to maintain the improved position on void property turnaround times and void rate.

The budget does include savings that are associated with reductions to internal and external charges for maintenance of HRA land. Internal charge savings have been secured by identifying cases where the HRA was charged for maintenance of non-HRA land in the past. Savings from external charges are expected to be achieved through careful management of the contractor providing external land maintenance services.

Note 4.
The HRA borrows to finance the planned housing investment and house building capital programmes. “Debt Charges” are capital financing costs (principal repayments and interest). The increase is in line with the capital investment plan set out in the report.

Note 5.
“Strategic Housing Investment” relates to income in excess of annual operating expenditure. It can be used within the same year to fund new capital investment (CFCR), repay old HRA debt or mitigate unforeseen risks. It can also be transferred to the Repairs and Renewals fund to support the new build programme in future years.

It is important to note that all scenarios considered for the 2025/26 HRA Business Plan assume that no in year surpluses or reserves have been applied to the capital investment programme, and this will therefore be fully funded by borrowing in current and the next five to ten years. However, this approach will be reviewed on an annual basis taking account of future plans and the assessment of financial risks.

Appendix 3: Draft 5 Year & 10 Year HRA Capital Investment Programme

The 2025/26 Draft Budget and business plan are based on the assumptions set out in Appendix 1. Below is the outline draft five-year Capital Investment Programme and summary 10-year investment strategy (£2.104bn) based on annual rent increases of 7.0%. Inflation has been included in the figures where appropriate. The programme will be revised should there be any change to the final rent increase agreed for 2025/26. The resources may be revised through the year as officers seek to make the best use of any existing and new resources and use the most appropriate funding to generate the best return to the HRA.

Programme Heading	1	2	3	4	5	***5 Year***	6 to 10	***10 Year***
	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	***Total***	2030/31 to 2034/35 £m	***Total***
Programme Expenditure								
New Homes Development	71.725	115.933	139.028	136.561	66.711	**529.957**	214.382	**744.339**
New Homes Land Costs	0.900	-	-	-	-	**0.900**	11.793	**12.693**
Off The Shelf Purchases	59.016	-	-	-	-	**59.016**	-	**59.016**
Improvement to Council Homes and Estates	89.156	142.454	154.514	149.995	140.679	**676.798**	611.141	**1,287.939**
Total Expenditure	**220.797**	**258.387**	**293.542**	**286.556**	**207.389**	**1,266.672**	**837.316**	**2,103.988**
Programme Resources								
Prudential Borrowing	127.667	145.772	227.598	222.513	149.580	**873.129**	681.330	**1,554.459**
Capital Funded from Revenue / Reserve / CTDF	3.300	3.300	3.300	3.300	3.300	**16.500**	14.700	**31.200**
Capital Receipts and Other Incomes	16.805	22.168	21.710	20.010	8.110	**88.803**	40.550	**129.353**
Receipts from LLPs*	54.025	68.147	21.935	21.733	27.400	**193.239**	5.736	**198.975**
Scottish Government Grant (Social & Mid Market)	15.000	15.000	15.000	15.000	15.000	**75.000**	75.000	**150.000**
Scottish Government Grant (WHR)	4.000	4.000	4.000	4.000	4.000	**20.000**	20.000	**40.000**
Total Funding	**220.797**	**258.387**	**293.542**	**286.556**	**207.389**	**1,266.672**	**837.316**	**2,103.988**

**The budget for new build housing includes the upfront capital costs for the Council led development of all affordable homes, including homes for mid-market and affordable market that will be purchased by the Council's LLP (Edinburgh Living). This has no impact on the HRA as interest payments are deferred until the homes are purchased. Please note these receipts go beyond current approved levels of on-lending, approval will be sought to expand the programme in future years.*

Appendix 4: Long list of proposals of using the GF to support the HRA

As General Fund is funded by Council Taxpayers in the city, proposals should ideally demonstrate their benefits to the whole city (in the long term) and not just to Council tenants. Below is a list of possible areas the General Fund could help to reduce the pressure on the HRA while providing benefits to the city:

- **HRA Adaptations**: Adaptations on Council homes not only allows the tenants to live independently, it also helps to reduce hospital admissions and demand of the care homes, providing a positive Health and Social Care outcomes. The General Fund currently funds private sector adaptations and RSLs receive grant funding from the TMDF for their adaptations.
- **Capital investment on new build:** Building more affordable homes is one of the key actions to tackle the housing crisis in the city. Following the latest review on the HRA business plan assumptions, it is projected that the HRA would need to reduce its new build programme by c.1,350 homes over the 10 years from 2024/25 to remain financial stable. Wheelchair accessible homes costs more to build, but do not currently warrant additional benchmark affordable housing grant. Additional funding could help to increase the viability and development of more accessible homes.
- **Capital investment on existing homes**: There is little government funding from Scottish Government to support social landlords on EESSH2 investment, and the funding is awarded on project-by-project basis. Additional investment on existing homes would help to bring the Council homes to meet the EESSH2 standards and support a just transition to net zero.
- **Capital investment in estates**: Investment in Environmental Improvement Projects and wider regeneration of HRA owned land around Council Homes is currently funded from HRA borrowing. All residents living in these mixed tenure communities benefit from these upgrades.
- **Tenant Hardship Fund**: The Fund was set up as part of 2023/24 HRA budget to support tenants experiencing financial hardship. By providing a relief to the financial hardship, the Fund helps to prevent rent arrears building up and, in turn, prevents possible eviction and homelessness, as well as stress impacting on tenants' mental health.

An updated profile of unfunded capital priorities across all Council services is included in the separate General Fund Capital Budget report on this agenda.

Appendix 5: Proposed rent levels at a 7% rent increase

	2024/25	**2025/26 with 7% rent increase**		
Property Type	**Weekly**	**weekly**	**monthly**	**annual**
Bedsit (house or flat)	£87.15	£93.24	£404.04	£4,848.48
1 bed flat	£97.14	£103.95	£450.45	£5,405.40
1 bed house	£102.09	£109.23	£473.33	£5,679.96
2 bed flat	£112.89	£120.78	£523.38	£6,280.56
2 bed house	£117.87	£126.12	£546.52	£6,558.24
3 bed flat	£128.70	£137.70	£596.70	£7,160.40
3 bed house	£133.65	£143.01	£619.71	£7,436.52
4+ bed flat	£136.98	£146.58	£635.18	£7,622.16
4+ bed house	£141.96	£151.89	£658.19	£7,898.28

Appendix 6: Social Housing and High-Rise Retrofit template

Capital Budget Requirements

Service:	Housing and Homelessness	**Outline Business Case Timing:**	
Directorate:	Place	**Full Business Case Timing:**	

1. Description

The Housing Revenue Account (HRA) Budget Strategy 2025/26 to 2034/35 was considered by Housing, Homelessness and Fair Work Committee on 3 Dec 2024. The report stated that following the key changes made to the HRA business plan assumptions since the budget was approved in Feb 2024, the delivery of new supply of social rented homes has to be reduced by c.1,350 homes, from 3,560 in last year's plan to c.2,210 and £64m of Whole House Retrofit investment involving c.600 homes in high rise blocks has to be re-profiled beyond the ten-year period to keep the overall financial committment similar to last year's and the HRA financially stable. The HRA therefore seeks GF funding to deliver the c.1350 homes and £64m high rise investment concerned.

R/A/G Assessement of Deliverability: **A**

2. Implications or Risk of non-Investment

A non-investment will result in a reduced capital investment programme being delivered, with fewer new supply of social rented homes to help tackling the homelessness crisis and housing emergency in Edinburgh and fewer existing homes upgraded to high energy efficiency standards that helps to meet the Council's net zero commitment.

3. Alignment with Council Business Plan

Net Zero and Adaptation

The Whole House Retrofit programme will ensure all existing homes achieve high energy efficiency standards (e.g. Energy Efficiency Standard for Social Housing 2, EESSH2) by adopting a fabric first approach, helping to meet the Council's net zero commitment.
The Council led house-building programme prioritises delivery of homes on brownfield sites, reducing pressure on Edinburgh's green belt. Building more homes will inevitably produce more carbon, however, the Council aims to build homes as energy efficiency and sustainable as possible. Since November 2020 all new build Council homes have been designed to achieve net zero carbon.

End Poverty

The current HRA strategic investment approach for existing homes is to target investment in areas that fall within the 20% most deprived areas as per the Scottish Index of Multiple Deprivation (SIMD), in line with a climate justice approach and those who are most at risk of fuel poverty.
One of the key actions to end poverty in Edinburgh includes 'a decent home we can afford to live in'. Increasing the number of affordable homes in the city will have a positive impact on reducing homelessness as well as tackling poverty.

Create Good Places to Live and Work

In addition to continuing to build social rented Council homes and improve energy efficiency standards of existing homes and meet net zero target, the HRA budget strategy also seeks to improve wider estates for areas surrounding the existing and new Council homes and to support and enable large scale regeneration of strategic importance to the city, helping to creat a good place for residenets to live and work.

4. Cost And Funding

What is the anticipated cost and is there any additional external funding available?

If General Fund (GF) was to fund the gap of c.1,350 new social rented homes it would require capital funding of c.£298m and £64m to enable the Whole House Retrofit in an additional c.600 homes in high rise blocks over the ten-year period business plan.

Profile:		**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2031/32**	**2032/33**	**2033/34**	**2034/35**	**Total**
	Investments (a)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
1	1350 Additional Social Units	40.500	40.500	40.500	40.500	40.500	40.500	40.500	40.500	40.500	40.500	**405.000**
2	High Rise Retrofit			7.805	19.461	19.400	17.684					**64.350**
3	Project 3											**0.000**
4	Project 4											**0.000**
Total		40.500	40.500	48.305	59.961	59.900	58.184	40.500	40.500	40.500	40.500	**469.350**

		2025/26	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2031/32**	**2032/33**	**2033/34**	**2034/35**	**Total**
	External Funding (b)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
1	**Rent Supported Borrowing**	10.691	10.691	10.691	10.691	10.691	10.691	10.691	10.691	10.691	10.691	**106.910**
2												**0.000**
3												**0.000**
4												**0.000**
Total		10.691	10.691	10.691	10.691	10.691	10.691	10.691	10.691	10.691	10.691	**106.910**
Capital Request (a-b)		**29.809**	**29.809**	**37.614**	**49.270**	**49.209**	**47.493**	**29.809**	**29.809**	**29.809**	**29.809**	**362.440**